

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 NEAE-00 SP-02 USIA-06 AID-05 EB-08  
NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03  
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P 261200Z JAN 77

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC PRIORITY 1000

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E.O. 11652: N/A

TAGS: EFIN, PFOR, EG, US

SUBJECT: FORMER FINANCE MINISTER COMMENTS ON PRICE DECISIONS.

REF: CAIRO 1424

1. IN MEETING WITH EMBOFFS JANUARY 24, DR. AHMAD ABU ISMAIL, FORMER FINANCE MINISTER AND CHAIRMAN, PEOPLES ASSEMBLY BUDGET AND PLAN COMMITTEE, LAMENTED GOVERNMENT'S DECISION DRASTICALLY TO RAISE PRICES WHICH LED TO RIOTS JANUARY 18 AND 19. ABU ISMAIL SAID THAT, AS HE HAD PREDICTED PREVIOUSLY WHILE MINISTER, REACTION TO SUBSTANTIAL AND IMMEDIATE RISES IN PRICES OF BASIC COMMODITIES WAS RESENTMENT AMONG POPULATION WHICH LED TO VIOLENCE. HE DISCOUNTED COMMUNIST INFLUENCE IN INITIAL REACTION, SAYING COMMUNISTS ONLY EXPLOITED VIOLENT OPPPOSITION TO PRICE INCREASES. ABU ISMAIL SAID THAT HE STILL ADVOCATES GRADUAL APPROACH TO ANY REFORMS AND/OR PRICE CHANGES HE NOTED THAT WAGE INCREASES IN BUDGET SHOULD HAVE BEEN ALLOWED TO GO INTO EFFECT BEFORE PRICE INCREASES WERE ANNOUNCED.

2. ABU ISMAIL REMINDED EMBOFFS HE HAD RESITED IMF PRESSURES FOR SUCH REFORMS THROUGHOUT HIS TENURE, FINDING  
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INSTEAD WAYS TO INCREASE REVENUES WITHOUT RAISING PRICES. HE BELITTLED SMALL SUM INVOLVED IN GOE BUDGET CUTS (E.G., LESS THAN 200 MILLION DECREASE IN SUBSIDIES) AS NOT WORTH POLITICAL RISK OF PRICE INCREASES. ABU ISMAIL BELIEVES THAT SUCH AMOUNTS COULD HAVE BEEN RAISED BY OTHER MEANS (TAXES, CUSTOMS, ETC.) HE TENDED TO BLAME THE IMF FOR PRECIPITOUS PRICE INCREASES, INDICATING THEY HAD APPLIED INTENSE PRESSURE

IN DECEMBER 1976 FOR GOE TO MAKE REFORMS.

3 ABU ISMAIL SAID THAT KAISOUNI APPEARED BEFORE PEOPLES ASSEMBLY MORNING JANUARY 18, AND LISTENED FOR FOUR HOURS TO OBJECTIONS OF BUDGET COMMITTEE TO PROPOSED GOVERNMENT BUDGET AND PRICE INCREASES. WHEN SESSION ENDED ABU ISMAIL FELT HE HAD COMMITMENT FROM KAISOUNI TO RECONSIDER PRICE INCREASES, BUT INSTEAD, GOVERNMENT STUCK TO ITS DECISION AND KAISOUNI WENT ON TV SAME EVENING TO EXPLAIN KED FOR EXTREME MEASURES. ABU ISMAIL BELIEVES IF PRICE INCREASES HAD BEEN WITHDRAWN OR MITIGATED JANUARY 18, VIOLENCE WOULD HAVE BEEN MINIMIZED.

4. ACCORDING TO ABU ISMAIL, BUDGET AS OF JANUARY 24 WAS STILL PENDING BEFORE PEOPLES ASSEMBLY. HIS COMMITTEE IS SCHEDULED TO MAKE REPORT TO FULL ASSEMBLY JANUARY 29. AS IT NOW STANDS, ABU IS MAIL SAID THAT HE DOUBTED IF ANY MORE ASSISTANCE WOULD BE FORTH-COMING, REFERRING TO RUMORS OF TRIP BY KAISOUNI TO ARAB STATES. IF FURTHER ARAB ASSISTANCE WERE EXTENDED, IT WOULD HAVE TO BE AS RESULT OF U.S. INFLUENCE. HE CITED SUCCESS OF U.S. EFFORTS IN 1975 IN RAISING NEEDED CASH.

6. AS MATTER OF HISTORICAL RECORD, ABU ISMAIL SAID THAT CENTER PARTY (ASO) DID, IN FACT, APPROVE GOVERNMENT'S BUDGET JANUARY 15 DURING SPECIAL SESSION FOR PARLIAMENTARY DELEGATION CHARED BY PM. APPROVAL REGRETABLY GIVEN WITHOUT, HOWEVER, ANY DETAILS OF BUDGET. KAISOUNI REPORTEDLY SAID THERE WOULD BE SOME PRICE INCREASES BUT DID NOT ELABORATE. (WHEN CENTER PARTY ASSEMBLY MEMBERS COMPLAINED THEY WERE LIMITED OFFICIAL USE

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NOT CONSULTED AFTER DECISIONS WERE ANNOUNCED JANUARY 18, MINSTATE FOR PEOPLES ASSEMBLY AFFAIRS MOHI AL-DIN PUBLICLY REMINDED MEMBERS OF PREVIOUS APPROVAL.)

7. COMMENT: ABU ISMAIL IS FEELING VERY MUCH VINDICATED FOR HAVING STONEWALLED IMF REFORMS DURING HIS TENURE AS MINISTER OF FINANCE BECAUSE OF HIS CONCERN OVER THEIR ADVERSE POLITICAL EFFECTS. ABU ISMAIL PROFESSED NOT TO HAVE BEEN SURPRISED THEREFORE AT PUBLIC REACTION, ALTHOUGH WE WOULD GUESS HE WAS PROBABLY CAUGHT AS UNAWARE AS THE CABINET AT THE FEROCITY OF THAT REACTION. HE ECHOES NONGOVERNMENT MAJORITY VIEW THAT GOE SHOULD LET THINGS CALM DOWN BEFORE TAKING ANY FURTHER STEPS. HIS COMMENTS SHOULD ALSO BE EXAMINED IN LIGHT OF KAISOUNI'S STATEMENTS TO IMF REPS AS TO FORM OF RESTRICTED BUDGET (REFTEL).

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## Message Attributes

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